

Message Text

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72

ACTION ARA-17

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NSC-10 PA-03 RSC-01 AID-20 CIEP-02 SS-15 STR-08

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FM AMEMBASSY KINGSTON

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E. O. 11652: N/A

TAGS: ECON, EFIN, JM

SUBJ: INFLATIONARY PRESSURES PLAGUE JAMAICA

REF: KINGSTON 1155

SUMMARY: SINCE THE CURRENCY REALIGNMENTS, JAMAICA'S COST OF LIVING (COL) HAS BEEN RISING DRASTICALLY TO THE DISCOMFORT OF THE PNP GOVERNMENT.

FRUSTRATION WITH THIS DEVELOPMENT MAY HAVE PLAYED A PART IN A HOSTILE ATTITUDE OF THE PUBLIC TOWARD MUNICIPAL OFFICIALS IN THE RECENT FIREDEMIC.

1. THE PNP, WHICH RODE TO AN OVERWHELMING VICTORY IN MAR 1972 ON A WAVE OF DISCONTENT WITH THE PERFORMANCE OF THE PRECEDING GOVERNMENT, EMPHASIZED DURING THEIR CAMPAIGN CONCERN FOR JAMAICA'S

"SUFFERERS" AND LITTLE MEN. THE PNP PLEDGED TO USE THE RESOURCES OF THE GOVERNMENT TO HOLD DOWN THE RISING COST OF LIVING.

MANLEY'S SUBSEQUENT REORGANIZATION OF GOVERNMENT REFLECTED THIS CONCERN WITH COL BY CREATION OF A NEW MINISTRY OF COMMERCE AND CONSUMER PROTECTION TO SUPERVISE GOVERNMENT EFFORTS TO HOLD DOWN

COSTS. IN SPITE OF PRICE AND RENT FREEZES AND CONTROLS, FAILURE TO HOLD THE LINE HAS NOW MOVED THE COL TO THE FOREFRONT OF PUBLIC CONCERN.

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2. JAMAICA' S PRICE STRUCTURE HAS BEEN BUFFETTED BY RAPIDLY RISING COSTS FOR ITS TRADITIONALLY IMPORTANT IMPORTS OF FOOD, CAPITAL, AND CONSUMER GOODS. THE PROBLEM HAS BEEN INTENSIFIED BECAUSE DE-VALUATIONS HAVE REDUCED THE PURCHASING POWER OF THE JAMAICAN DOLLAR FROM J\$1 EQUALS US\$1.30 TO THE PRESENT J\$1 EQUALS US\$1.10. ALL PRICE INCREASES ARE MAGNIFIED BY THE TIME THEY REACH THE END USER, SINCE TARIFFS AND HANDLING COMMISSIONS TEND TO BE A PERCENTAGE OF THE VALUE OF THE IMPORTED COMMODITIES.

3. IN ITS EARLY MONTHS THE MANLEY GOVERNMENT APPROVED LONG DELAYED AND URGENTLY REQUIRED INCREASES OF UP TO 30 PERCENT FOR MAJOR PUBLIC UTILITIES, ELECTRICITY, TELEPHONES, AND MORE RECENTLY MUNICIPAL BUS SERVICES. PRICE CONTROLS ON BEEF HAVE NOW BEEN REMOVED DUE TO A 50 PERCENT INCREASE IN THE COST OF IMPORTED FEED GRAINS, AND PRICES HAVE MOVED SHARPLY UPWARD.

GOVERNMENT HAS AUTHORIZED PIG PRICES PAID TO GROWERS BY PROCESSORS TO INCREASE BY 30 PERCENT. CHICKEN HAS RISEN FROM J\$.42 TO J\$.52 A LB. IN RECENT WEEKS. MILK HAS BEEN RAISED FROM J\$.25 TO J\$.29 A QUART. PERIODIC SHORT-AGES IN THE AVAILABILITY OF SUCH PRODUCTS AS RED PEAS AND IRISH POTATOES HAVE SENT THE COST SKYROCKETING FOR THESE PRODUCTS. POTATOES HAVE MOVED FROM J\$.12 TO J\$.40 A POUND, THOUGH IMPROVED SUPPLIES MAY BRING BACK MORE REASONABLE PRICES. THESE INCREASES MUST BE SEEN AGAINST A SKEWED INCOME PATTERN WITH LARGE NUMBERS OF JAMAICANS EARNING LESS THAN 10 DOLLARS A WEEK.

5. THE FULL IMPACT OF THE MOST RECENT PRICE INCREASES ABROAD HAS YET TO BE FELT IN JAMAICA. MORE LOCAL PRICE INCREASES ARE CERTAINLY COMING. THESE EXTERNAL INCREASES WILL UNDOUBTEDLY STRENGTHEN GOVERNMENT' S DETERMINATION TO WORK FOR GREATER ECONOMIC SELF SUFFICIENCY, ESPECIALLY IN AGRICULTURE , BUT RESULTS WILL TAKE TIME. MEANWHILE, THE STRONG UPWARD MOVEMENT OF BASIC COSTS COMES AT A TIME WHEN RELIANCE ON BUDGETARY DEFICITS IS REACHING RECORD PROPORTIONS (POSSIBLY J\$99 MILLION FOR 1972-73 FISCAL YEAR). ALTHOUGH THE 1973-74 REVENUE ESTIMATES HAVE NOT BEEN TABLED, THE DEFICIT IS LIKELY TO EXCEED THIS RECORD. THE INTRODUCTION OF SO MUCH ADDITIONAL MONEY INTO THE ECONOMY WITH

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